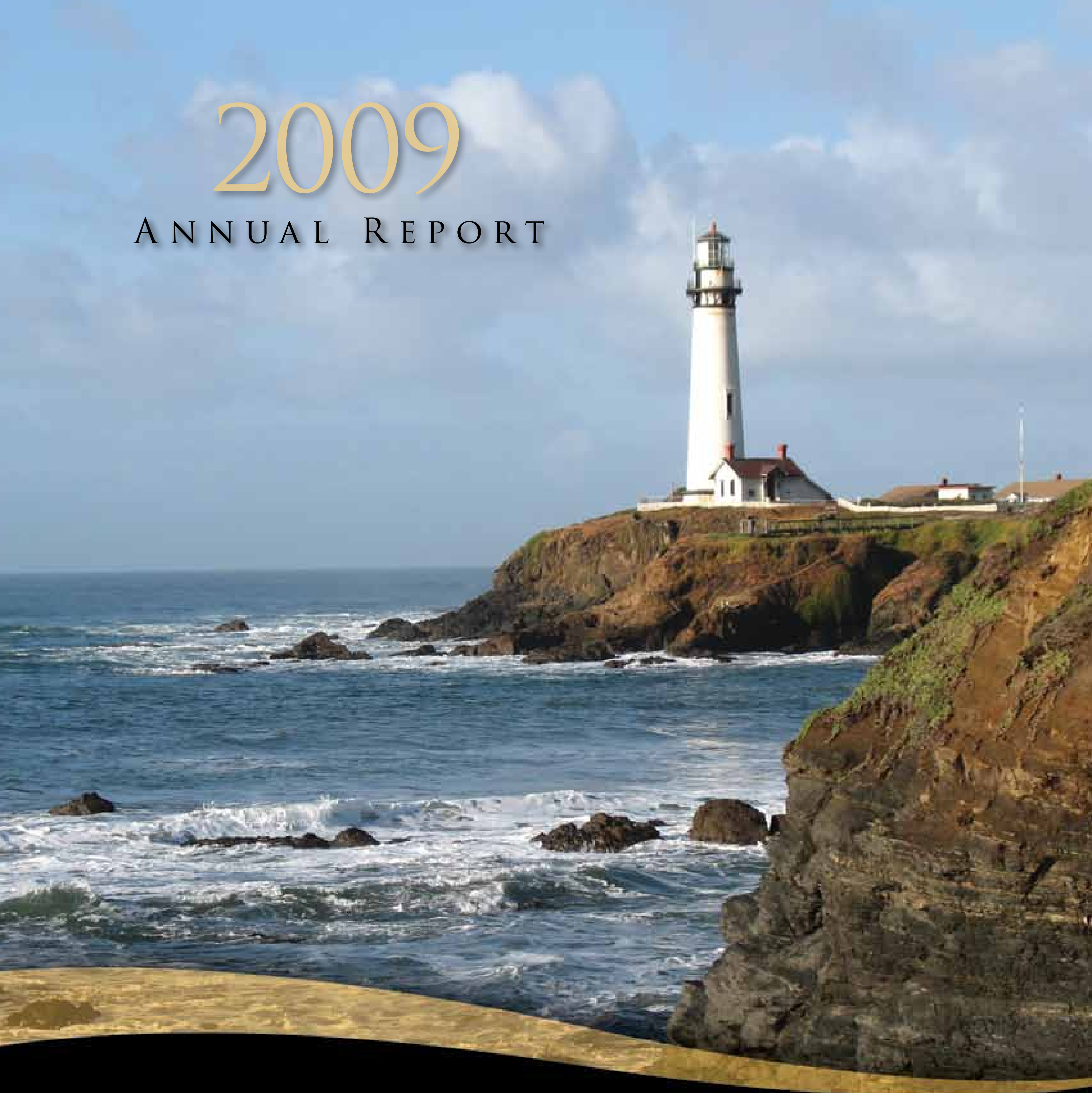
2009
Annual Report



Lighthouse Bank

Lighthouse Bank

Lighthouse Bank is a locally owned and operated independent bank serving Santa Cruz County. Our Bank was founded in October 2007 by approximately 350 local residents, professionals and small business owners. Our core business operations are conducted entirely in Santa Cruz County and we are committed to success driven by the economic health and prosperity of our community and local ownership.

Lighthouse Bank offers a full array of loan and deposit products to professionals, small to medium sized businesses and non-profit organizations in our community. We specialize in developing relationships that are tailored to meet the individual needs of each client. Our local headquarters and management give us the ability to respond to your needs quickly. Simply put, we believe in consistently delivering competitive products with a level of personalized, professional and highly-responsive service that is unmatched.

We value the trust our owners and clients place in us and recognize that they make our business possible. We invite you to visit us and experience premier local banking at Lighthouse Bank.

Cover Photo: Chip Rose

A Letter To Our Owners

To our Owners, Employees, Clients and Community,

On behalf of the Board of Directors and Management of Lighthouse Bank, we present our financial results for the fiscal year ended December 31, 2009. We are pleased to report that the Bank continued to experience consistent growth and increasing revenue in spite of the negative economic climate that persisted throughout 2009.

Our results for the year continued to be in line with original business plan projections established prior to the Bank's opening in 2007. During the year total assets grew to over $91 million, deposits reached $70 million and total loans exceeded $55 million. We reached a significant milestone by achieving profitable operations during the 3rd and 4th quarters of 2009. The operating loss of $197 thousand for the fiscal year ended December 31, 2009 was offset by nearly $360 thousand in non-cash charges related to stock option accounting. Shareholders' equity increased by $208 thousand for the year. Lighthouse Bank's equity continues to significantly exceed regulatory requirements designating the Bank as a "well capitalized" financial institution. More comprehensive financial results are included in detail later in this report.

During 2009, high unemployment levels, declining real estate values and a crippling recession created the perfect economic storm for the banking industry. These conditions have also negatively impacted many of our clients and, to a large extent, our entire community. In the face of these circumstances the Bank has continued to invest locally by ensuring that credit remains accessible to our community, fueled by the expanding depository relationships of our local clients. The Bank remains focused on achieving success by fostering and maintaining long-term and durable business and personal banking relationships, while providing solid economic value to our clients and owners.

John C. Burroughs
Chairman of the Board

Richard G. Hofstetter
President and CEO

A Letter To Our Owners

The Bank's business model will position us well for success in 2010 and for years to come. Through measured and deliberate growth, responsible investment practices, internal efficiency and effective cost control, the Bank will avoid the structural defects that have plagued much of the financial services industry. Growth will be achieved by providing superior, highly personalized services and tangible financial value to our clients.

The coming year will present significant challenges for the economy, the banking industry and for Lighthouse Bank. Our financial success in 2010 will be predicated on generating quality loan growth, together with increasing core (checking and money market) depository relationships. We are confident that while economic recovery is expected to be slow, Lighthouse Bank is poised to operate effectively in this and any other economic environment. We are optimistic that the Bank's common sense method of operation executed by our committed and exceptionally qualified staff will produce positive results for all.

As always, we would like to thank our owners, clients and staff for their continued support as we move forward to meet the challenges and uncover the opportunities that lie ahead. Please join us at our annual shareholder meeting at the Museum of Art and History at the McPherson Center on Thursday, May 20, 2010 at 4:00 P.M.

Sincerely,

John C. Burroughs
Chairman of the Board

Richard G. Hofstetter
President and CEO

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants
www.vtdcpa.com

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lighthouse Bank

We have audited the balance sheets of Lighthouse Bank as of December 31, 2009, and 2008 and the related statements of operations, changes in stockholders' equity and other comprehensive income, and cash flows for the period from October 29, 2007 (date of inception) through December 31, 2007, and for each of the years in the two year period ended December 31, 2009. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Bank as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the period from October 29, 2007 (date of inception) through December 31, 2007, and for each of the years in the two year period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
March 12, 2010

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FRESNO ◆ LAGUNA HILLS ◆ PALO ALTO ◆ PLEASANTON ◆ RANCHO CUCAMONGA

STATEMENTS OF CONDITION

	December 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 8,797,559	$ 1,919,406
Federal funds sold	4,106,000	4,950,000
Total cash and cash equivalents	12,903,559	6,869,406
Interest bearing deposits in other financial institutions	16,482,000	12,205,000
Investment securities:		
Securities available-for-sale, at estimated fair value	2,759,425	3,671,886
Total investment securities	2,759,425	3,671,886
Loans receivable:		
Gross loans	55,137,090	42,239,935
less deferred loan fees, net of costs	274,869	251,326
less reserve for loan losses	1,384,000	971,000
Net loans	53,478,221	41,017,609
Premises and equipment, net	433,479	593,973
Accrued interest receivable	229,264	189,027
Federal Home Loan Bank and bankers' bank stock, at cost	464,274	278,700
Other real estate owned	3,882,387	-
Other assets	522,009	130,051
TOTAL ASSETS	$ 91,154,618	$ 64,955,652
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$ 12,454,194	$ 10,049,217
Interest-bearing demand deposits	2,886,908	2,740,038
Savings and money market deposits	32,722,861	22,268,031
Time deposits	22,409,801	13,588,436
Total deposits	70,473,764	48,645,722
Other liabilities:		
Accrued interest payable	16,426	23,505
Borrowings	4,100,000	-
Other liabilities	180,418	110,897
Total liabilities	74,770,608	48,780,124
SHAREHOLDERS' EQUITY:		
Common stock, no par value, 10,000,000 shares authorized: issued and outstanding; 1,853,028 shares at December 31, 2009 and at December 31, 2008	18,484,627	18,484,627
Additional paid-in-capital	843,113	487,856
Accumulated (deficit)	(3,044,116)	(2,847,533)
Accumulated other comprehensive income	100,386	50,578
Total shareholders' equity	16,384,010	16,175,528
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 91,154,618	$ 64,955,652

See accompanying notes to the Financial Statements

STATEMENTS OF OPERATIONS

	Year Ended December 31, 2009	Year Ended December 31, 2008	Period from October 29, 2007 (inception) to December 31, 2007
INTEREST INCOME:			
Interest and fees on loans	$ 3,785,073	$ 2,297,636	$ 47,147
Investment securities	525,172	99,042	300
Federal funds sold and other interest income	14,278	365,449	164,338
Total interest income	4,324,523	2,762,127	211,785
INTEREST EXPENSE:			
Deposits (note 6) and other borrowed funds	768,035	630,879	27,168
Net interest income before provision for loan losses	3,556,488	2,131,248	184,617
Provision for loan losses	413,000	891,000	80,000
Net interest income after provision for loan losses	3,143,488	1,240,248	104,617
NON-INTEREST INCOME:			
Service charges on deposit accounts	102,555	42,801	714
Other non-interest income	32,749	16,120	1,311
Total non-interest income	135,304	58,921	2,025
NON-INTEREST EXPENSE:			
Salaries and employee benefits	2,141,394	2,183,656	393,812
Occupancy	257,463	273,049	46,461
Furniture and equipment	229,033	232,989	35,400
Marketing and business development	52,475	59,321	13,508
Item and data processing	156,107	98,615	8,406
Professional services	90,679	83,571	18,469
Other operating expenses	547,424	377,593	127,625
Total non-interest expense	3,474,575	3,308,794	643,681
Loss before income taxes	(195,783)	(2,009,625)	(537,039)
Income tax expense	800	800	-
Net loss	$ (196,583)	$ (2,010,425)	$ (537,039)
Loss per share:			
basic	$ (0.11)	$ (1.08)	$ (0.29)
diluted	$ (0.11)	$ (1.08)	$ (0.29)

See accompanying notes to the Financial Statements

STATEMENT OF SHAREHOLDER'S EQUITY
Period from October 29, 2007 (inception) to December 31, 2009

	Common Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Other Comprehensive Income	Total Shareholders' Equity
Balance at October 29, 2007 (inception)	-	$ -	$ -	$ -	$ -	$ -
Pre-opening costs, net	-	-	-	(300,069)	-	(300,069)
Proceeds from stock offering, net of offering expenses of $45,653	1,853,028	18,484,627	-	-	-	18,484,627
Stock-based compensation	-	-	121,148	-	-	121,148
Net loss	-	-	-	(537,039)	-	(537,039)
Balance at December 31, 2007	1,853,028	18,484,627	121,148	(837,108)	-	17,768,667
Stock-based compensation	-	-	366,708	-	-	366,708
Net loss	-	-	-	(2,010,425)	-	(2,010,425)
Unrealized gain on securities available-for-sale, net of tax of $0	-	-	-	-	50,578	50,578
Balance at December 31, 2008	1,853,028	18,484,627	487,856	(2,847,533)	50,578	16,175,528
Stock-based compensation	-	-	355,257	-	-	355,257
Net loss	-	-	-	(196,583)	-	(196,583)
Unrealized gain on securities available-for-sale, net of tax of $0	-	-	-	-	49,808	49,808
Balance at December 31, 2009	1,853,028	$18,484,627	$843,113	$(3,044,116)	$ 100,386	$ 16,384,010

See accompanying notes to the Financial Statements

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2009	Year Ended December 31, 2008	Period from October 29, 2007 (inception) to December 31,
OPERATING ACTIVITIES:			
Net loss	$ (196,583)	$ (2,010,425)	$ (537,039)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization of premises and equipment	185,995	173,853	26,604
Provision for loan losses	413,000	891,000	80,000
Net amortization/accretion of investment discounts and premiums	12,219	1,490	9
Increase in deferred loan fees, net of costs	23,543	191,109	60,217
Stock-based compensation	355,257	366,708	121,148
Net increase in:			
Accrued interest receivable	(40,237)	(167,543)	(21,484)
Other assets	(391,958)	(32,378)	(97,673)
Net increase (decrease) in:			
Accrued interest payable	(7,079)	21,436	2,069
Other liabilities	69,521	64,812	46,085
Net cash (used in) operating activities	423,678	(499,938)	(320,064)
INVESTING ACTIVITIES:			
Held-to-maturity securities:			
Principal repayments	-	100,000	-
Purchases	-	-	(100,190)
Available-for-sale securities:			
Principal repayments	950,050	36,118	-
Purchases	-	(3,658,736)	-
Purchase of Federal Home Loan Bank stock	(184,000)	(8,700)	-
Purchase of bankers' bank stock	(1,574)	(270,000)	-
Net (increase) in time deposits with other banks	(4,277,000)	(12,205,000)	-
Net (increase) in loans	(16,779,542)	(35,848,122)	(6,391,813)
Purchase of premises and equipment	(25,501)	(84,112)	(712,053)
Disposal of equipment	-	1,736	-
Net cash used in investing activities	(20,317,567)	(51,936,816)	(7,204,056)
FINANCING ACTIVITIES:			
Net proceeds from sale of common stock	-	-	18,484,627
Pre-opening costs	-	-	(300,069)
Increase in:			
Demand deposits	2,551,847	9,538,962	3,250,293
Savings and money market deposits	10,454,830	17,745,195	4,522,836
Time deposits	8,821,365	12,384,305	1,204,131
Other borrowings	4,100,000	-	-
Net cash provided by financing activities	25,928,042	39,668,462	27,161,818
Net (decrease) increase in cash and cash equivalents	6,034,153	(12,768,292)	19,637,698
Cash and cash equivalents at beginning of period	6,869,406	19,637,698	-
Cash and cash equivalents at end of period	$12,903,559	$ 6,869,406	$ 19,637,698
Supplemental Disclosures of Cash Flow Information			
Total interest paid	$ 775,114	$ 609,443	$ 25,099
Total income taxes paid	800	800	-
Transfer of loans to other real estate owned	3,882,387	-	-

See accompanying notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

Description of the Business — Lighthouse Bank (the Bank) is a California state chartered bank which offers a full range of commercial and personal banking services to residents and businesses in Santa Cruz County, California, through its office in Santa Cruz, California. The Bank was incorporated on June 13, 2007 as Lighthouse Bank (In Organization) and commenced banking operations on October 29, 2007 (inception), upon receipt of final approval from the California Department of Financial Institutions and the issuance of deposit insurance by the Federal Deposit Insurance Corporation. The Bank is subject to competition from other financial institutions. Additionally, the Bank is subject to regulations by the above referenced regulatory agencies and undergoes periodic examinations by those agencies.

The majority of the Bank's business is done with customers located in Northern California, specifically in Santa Cruz and adjacent counties. The Bank has 56 credit arrangements that are collateralized by real estate. Generally, the Bank maintains loan-to-value ratios no greater than 70 percent on commercial and multi-family real estate loans and no greater than 70 percent on single-family residential real estate loans. At December 31, 2009, the Bank had loans outstanding of approximately $48,890,000 that were collateralized by real estate. There were no other significant loan concentrations.

Subsequent Events — The Bank has evaluated subsequent events for recognition and disclosure through March 12, 2010, which is the date the financial statements were available to be issued.

Summary of Significant Accounting Policies — The accounting and reporting policies of the Bank conform to generally accepted accounting principles in the United States of America and prevailing practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported accounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant policies used in the preparation of the accompanying financial statements.

Cash and Cash Equivalents — For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and highly liquid debt instruments with an original maturity of 90 days or less. The Bank had no cash reserve requirements at December 31, 2009 or at December 31, 2008.

Investment Securities — Marketable investment securities have consisted of U.S. Government Agency and Agency mortgage-backed securities. At the time of purchase, the Bank designates securities as either “held-to-maturity” or “available-for-sale” based on its investment objectives, operational needs and intent. The Bank does not engage in securities trading activities.

Held-to-maturity securities are recorded at amortized cost, adjusted for amortization or accretion of premiums or discounts. Available-for-sale securities are recorded at fair value with unrealized holding gains and losses, net of the related tax effect, reported as a separate component of shareholders’ equity until realized. During the year ended December 31, 2009, there were no transfers between classifications. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized on an accrual basis. Realized gains and losses for securities classified as available-for-sale and held-to-maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis and more frequently when economic or market conditions warrant. A decline in the market value of any available-for-sale security below cost that is deemed other than temporary, results in a charge to earnings and the establishment of a new cost basis for the security. No such declines have occurred.

Loans — Loans are stated at the amount of unpaid principal, net of deferred fees, and reduced by an allowance for loan losses. Accrual of interest is discontinued on loans which are more than 90 days delinquent or when Management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful unless the loans are well-secured and in the process of collection. When a loan is placed on non-accrual status, all interest previously accrued but not collected is charged against current period income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Generally, a non-accrual loan will be restored to an accrual status when none of its principal and interest is past due, when prospects for future contractual payments are no longer in doubt and when the loan becomes well-secured and in the process of collection.

Non-refundable fees and estimated loan origination costs are deferred net and are amortized to income over the expected life of the loan using a method that approximates the level yield method.

Impaired Loans — The Bank considers a loan to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Generally, the Bank identifies loans to be reported as impaired when such loans are in non-accrual status or are considered troubled debt restructurings due to the granting of a below-market rate of interest or a partial forgiveness of indebtedness on an existing loan. Any allowance on impaired loans is generally based on one of three methods. 1) present value of expected future cash flows discounted at the loan's effective interest rate or, 2) as a practical expedient, at the loan's observable market price or 3) the fair value of the collateral if the loan is collateral dependent. Income recognition on impaired loans is consistent with the policy for income recognition on non-accrual loans described above.

Allowance for Loan Losses — The allowance for loan losses is established through periodic provisions for possible loan losses. Loans are charged against the allowance for loan losses when Management believes that the collectability of the principal is unlikely. The allowance is a reserve to provide for possible losses on existing loans that may become uncollectable, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations include consideration of changes in the nature and volume of the loan portfolio, overall portfolio quality, a review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

Management believes that the allowance for loans losses is adequate. While Management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

Premises & Equipment — Premises and equipment are stated at cost less accumulated depreciation and amortization and include additions that materially extend the useful lives of existing premises and equipment. All other maintenance and repair expenditures are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, three to five years, and are expensed to non-interest expense. Leasehold improvements are amortized over the initial term of the lease.

Federal Home Loan Bank Stock — The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Other Real Estate Owned — Other real estate owned represents real estate acquired through foreclosure and is carried at the lower of the recorded investment on the property or its fair value. Prior to foreclosure, the value of the underlying loan is written down to the fair market value of the real estate to be acquired by a charge to the allowance for credit losses, if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income are included in other expenses.

Income Taxes — Deferred tax assets and liabilities are recognized at currently enacted rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized and settled. Deferred income taxes are provided on income and expense items recognized in different periods for financial statement and tax reporting purposes. As the Bank has not reached a stage of sustained profitability, any net deferred tax benefit arising from temporary differences between financial statement and tax reporting has been offset by a valuation allowance resulting in no net deferred tax asset being recorded at December 31, 2009, and 2008.

The Bank has adopted guidance issued by the Financial Accounting Standards Board (“FASB”) that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

This guidance has been applied to all tax positions of the Bank as of inception. The adoption of this guidance has not had a material impact on the Bank’s financial position, results of operations or cash flows for the periods presented.

Stock-Based Compensation — The Bank recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note 8 for additional information on the Bank’s stock option plan.

Fair Value Measurements — Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note 12 for more information and disclosures relating to the Bank's fair value measurements.

Earnings (Loss) Per Share — Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Due to the operating losses incurred there are no potentially dilutive securities at December 31, 2009, December 31, 2008 or December 31, 2007. The weighted average shares outstanding was 1,853,028 at each of the periods ended December 31, 2009, 2008 and 2007.

Comprehensive Income — Changes in unrealized gains and losses on available-for-sale securities is the only component of accumulated other comprehensive income for the Bank. The Bank had accumulated other comprehensive income totaling $49,808 and $50,578, at December 31, 2009 and December 31, 2008, respectively.

	2009	2008	2007
Net loss	$ (196,583)	$ (2,010,425)	$ (537,039)
Unrealized gain on securities available for sale	49,808	50,578	-
Total comprehensive loss	$ (146,775)	$ (1,959,847)	$ (537,039)

Adoption of New Accounting Standards

Subsequent Events — In May 2009, the FASB issued guidance which requires the effects of events that occur subsequent to the balance-sheet date be evaluated through the date the financial statements are either issued or available to be issued. Entities are to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Entities are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events). Entities are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (non-recognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for annual financial periods ended after June 15, 2009 with prospective application. The Bank adopted the guidance for the year ended December 31, 2009 by including the required disclosures in Note 1 to the financial statements.

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — In June 2009, accounting standards were revised to establish the Accounting Standards Codification (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for annual periods ended after September 15, 2009, and as of the effective date, all existing accounting standard documents were superseded. Adoption of the Codification in 2009 did not have a material impact on the Bank's financial statements.

Fair Value Measurements — In April 2009, accounting standards were amended to provide additional guidance for determining the fair value of a financial asset or financial liability when the volume and level of activity for such asset or liability decreased significantly and also to provide guidance for determining whether a transaction is orderly. The amendments were effective for annual reporting periods ended after June 15, 2009. Adoption of the amendments in 2009 did not have a material impact on the Bank's financial statements.

In February 2008, the FASB issued instructions that delayed the effective date of fair value measurement for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008. Adoption of the fair value measurement rules in 2009 for non-financial assets and non-financial liabilities subject to the delay did not have a material impact on Bank's financial statements.

Other-Than-Temporary Impairment — In April 2009, accounting standards were amended to provide expanded guidance concerning the recognition and measurement of other-than-temporary impairments of debt securities classified as available for sale or held to maturity. The amendments require an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit component in other comprehensive income when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. Expanded disclosures are also required concerning such impairments. The amendments were effective for annual reporting periods ended after June 15, 2009. Adoption of the amendments in 2009 did not have a material impact on the Bank's financial statements.

Newly Issued Not Yet Effective Accounting Standards — In June 2009, accounting standards were amended to clarify when a transferor has surrendered control over transferred financial assets and thus is entitled to account for the transfer as a sale. The amendments establish specific conditions for accounting for the transfer of a financial asset, or a portion of a financial asset, as a sale. The amendments could impact when a loan participation or SBA loan sale may be accounted for as a sale and the related transferred asset derecognized by the Bank. This guidance is effective for transfers occurring on or after January 1, 2010. The Bank has not yet completed its evaluation of these amendments, but does not expect that they will have a material impact on its balance sheet or statement of operations.

Note 2. Investment Securities

The following table summarizes Lighthouse Bank's securities held-to-maturity and available-for-sale at December 31, 2009, and December 31, 2008:

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Agency MBS's	$ 2,659,039	$ 100,386	$ -	$ 2,759,425
Total securities available for sale	$ 2,659,039	$ 100,386	$ -	$ 2,759,425
December 31, 2008				
Securities available-for-sale:				
U.S. Agency MBS's	$ 3,621,308	$ 54,977	$ (4,399)	$ 3,671,886
Total securities held to maturity	$ 3,621,308	$ 54,977	$ (4,399)	$ 3,671,886

The amortized cost and estimated fair value of investment securities at December 31, 2009 and December 31, 2008 by contractual maturity are shown below, except for mortgage-backed securities and other securities which are presented in total. Expected maturities on mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities available-for-sale		Securities held-to-maturity	
December 31, 2009	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	-	-
Mortgage-backed securities	2,659,039	2,759,425	-	-
Total	$ 2,659,039	$ 2,759,425	$ -	$ -
December 31, 2008				
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	-	-
Mortgage-backed securities	3,621,308	3,671,886	-	-
Total	$ 3,621,308	$ 3,671,886	$ -	$ -

There are no investment securities in a temporary unrealized loss position as of December 31, 2009. There are no investment securities that have been in a temporary unrealized loss position for 12 months or longer. No investment securities were sold in 2009 or 2008. There were no investment securities required to be pledged to secure public deposits at December 31, 2009 and December 31, 2008, or for any other purposes, required or permitted by law, at December 31, 2008. Investment securities pledged to secure Federal Home Loan Bank borrowings (note 7) at December 31, 2009 were $700,000.

Note 3. Loans

Loan maturity and rate sensitivity data (excluding loans on non-accrual) of the loan portfolio, in thousands, at December 31, 2009 and 2008 are as follows (in thousands):

December 31, 2009

	Within One Year	One to Five Years	After Five Years	Total
Real estate and construction	$ 14,795	$ -	$ -	$ 14,795
Consumer, other	-	-	-	-
Commercial and revolving lines	6,886	23,138	9,612	39,636
	$ 21,681	$ 23,138	$ 9,612	$ 54,431
Loans at fixed interest rates	$ 19,942	$ 13,389	$ 9,612	$ 42,943
Loans at variable interest rates	1,739	9,749	-	11,488
	$ 21,681	$ 23,138	$ 9,612	$ 54,431

December 31, 2008

	Within One Year	One to Five Years	After Five Years	Total
Real estate and construction	$ 19,428	$ -	$ -	$ 19,428
Consumer, other	-	-	-	-
Commercial and revolving lines	1,869	7,226	10,859	19,954
	$ 21,297	$ 7,226	$ 10,859	$ 39,382
Loans at fixed interest rates	$ 16,971	$ 7,226	$ 10,859	$ 35,056
Loans at variable interest rates	4,326	-	-	4,326
	$ 21,297	$ 7,226	$ 10,859	$ 39,382

Changes in the allowance for loan losses were as follows:

	December 31, 2009	2008	2007
Balance at beginning of year	$ 971,000	$ 80,000	$ -
Provision for loan losses	413,000	891,000	80,000
Loan charge-offs	-	-	-
Recoveries of loan charge-offs	-	-	-
Balance at year end	$ 1,384,000	$ 971,000	$ 80,000

	2009	2008	2007
Net loan (recoveries) charge-offs as a percentage of average total loans	N/A	N/A	N/A

In general, the Bank would not recognize any interest income on loans that are classified as impaired. The following is a summary of the investment in impaired loans as of December 31, 2009 and 2008, including the related allowance for loan losses and cash-basis income recognized. Also shown are loans on non-accrual and those that are past due and still accruing interest:

	As of December 31,		
	2009	2008	2007
Impaired Loans:			
Recorded investment in impaired loans	$ 706,024	$ 2,857,976	$ -
Related allowance for loan losses	-	-	-
Average recorded investment in impaired loans	2,715,495	894,521	-
Interest income recognized for cash payments while impaired	-	-	-
Total loans on non-accrual	706,024	2,857,976	-
Total loans past due 90 days or more and still accruing interest	-	-	-

Note 4. Premises and Equipment

The following presents the cost of premises and equipment including leasehold improvements and the related accumulated depreciation and amortization at December 31, 2009 and December 31, 2008:

	December 31,	
	2009	2008
Leasehold improvements	$ 294,469	$ 291,813
Furniture, fixtures and equipment	210,213	207,392
Software and capitalized data & item processing	145,660	127,363
Computer equipment	149,026	147,299
Automobile	20,282	20,282
Construction-in-progress	-	-
Total premises and equipment	819,650	794,149
Less accumulated depreciation and amortization	386,171	200,176
Premises and equipment, net	$ 433,479	$ 593,973

Depreciation and amortization expense of premises and equipment aggregated $185,995 and $173,853 for the years ended December 31, 2009 and December 31, 2008, respectively, and $26,604 for the period from October 29, 2007 (inception) to December 31, 2007.

Note 5. Income Taxes

Deferred income taxes are the result of differences between income tax accounting and accounting principles generally accepted in the United States of America, with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts as of December 31, 2009:

Pre-opening expenses	$ 106,000
Stock-based compensation	126,000
Operating loss carry-forwards	231,000
Loan loss reserve	520,000
Other	41,000
	1,024,000
Valuation allowance	(1,024,000)
Net deferred tax asset	$ -

The valuation allowance is necessary as the Bank has not generated earnings sufficient to support the recognition of the deferred tax asset. Both federal and state net operating loss carryovers will begin to expire 20 years from the date the loss was incurred. Therefore both the federal and state carryovers will begin to expire in 2027. The provision for income taxes is as follows for the years ended December 31, 2009 and December 31, 2008:

	2009	2008
Current:		
Federal	$ -	$ -
State	800	800
Total current	$ 800	$ 800
Deferred:		
Federal	$ -	$ -
State	-	-
Total deferred	$ -	$ -

Note 6. Time Deposits

The aggregate amount of time deposit accounts equal to or greater than $100,000 was $16,624,183 and $9,255,746 at December 31, 2009 and December 31, 2008, respectively. At December 31, 2009 the scheduled maturities for time deposits were as follows (in thousands):

Due in 2010	$ 20,863
Due in 2011	1,215
Due in 2012	231
Due in 2013	101
	$ 22,410

Interest expense on time deposits of $100,000 or more was $287,864, $194,514 and $3,119 in 2009, 2008 and 2007, respectively.

Note 7. Borrowed Funds

The Bank has obtained federal funds borrowing guidance lines with its correspondent banks in an aggregate amount of $5.5 million on an unsecured basis. The only usage of these guidance lines was to successfully test their availability. Additionally, the Bank has established a secured borrowing facility with the Federal Reserve Bank of San Francisco. Total FHLB borrowings at December 31, 2009 were $4,100,000 with a weighted average maturity of 153 days and a weighted average cost of 0.83%. At December 31, 2009, the Bank had a total available borrowing capacity of $9,437,283 which included $3,937,283 in secured borrowing capacity from the FHLB.

Note 8. Stock Options

The Bank has adopted a qualified stock option plan (the Plan) for employees, non-employee directors and Bank founders, under which a maximum of 555,908 shares of Bank's common stock may be issued. The Plan calls for the exercise prices of the options to be equal to or greater than the fair market value of the stock at the time of grant. Options granted to Bank founders who are not also Bank directors or Bank officers were fully vested upon the date of grant. All other options shares granted have annual vesting over the first three years of the option contract. All option contracts for founders who are not also Bank directors or Bank officers have expiration dates of ten years from the date of grant. All director and employee option contracts have expiration dates on the earlier of termination of service or 10 years from the date of grant.

The following is a summary of required disclosures relating to the Bank's stock option plan for the periods presented:

	Options Outstanding	Weighted Average Exercise Price
October 29, 2007 (inception)	-	-
Granted 2007	444,500	$ 10.00
Exercised 2007	-	-
Cancelled 2007	-	-
Balance at December 31, 2007	444,500	10.00
Granted 2008	5,000	11.80
Exercised 2008	-	-
Cancelled 2008	(12,500)	10.00
Balance at December 31, 2008	437,000	10.02
Granted 2009	6,000	9.88
Exercised 2009	-	-
Cancelled 2009	(3,000)	10.00
Balance at December 31, 2009	440,000	$ 10.02

	Options Outstanding			Options Exercisable		
	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Contractual Life	Weighted Average Exercise Price
December 31, 2008:	437,000	8.76 years	$10.02	159,330	8.75 years	$10.00
December 31, 2009:	440,000	7.78 years	$10.02	295,327	7.75 years	$10.01

There was no aggregate intrinsic value of stock option awards outstanding and exercisable at December 31, 2009.

The number and weighted average grant date fair value of options granted is as follows for the years ended December 31, 2009 and December 31, 2008:

	Number	Weighted Average Grant Date Fair Value
2007	444,500	$2.61
2008	5,000	$2.77
2009	6,000	$2.43

The weighted average assumptions used for 2009, 2008 and 2007 in determining the fair value of options granted are as follows:

	2009	2008	2007
Expected life (yrs.)	6	6	6
Volatility	15.00%	11.56%	11.56%
Risk free rate of return	3.46%	3.85%	4.55%
Dividend yield	0.00%	0.00%	0.00%

Note 9. 401(k) Employee Benefit Plan

All employees of the Bank are immediately, upon employment, eligible to participate in the Bank's 401(k) Plan which is a tax-deferred savings plan designed to assist employees in preparing for their retirement years. Employees may contribute to the Plan up to certain limits prescribed by the Internal Revenue Service. The Bank does not match employee contributions.

Note 10. Related Party Transactions

In the ordinary course of business, Bank policies allow the making of loans to directors, officers, principal shareholders and their associates on substantially the same terms, including interest rates, origination and commitment fees, and collateral, as comparable transactions with unaffiliated persons, and such loans do not involve more than the normal risk of collectability. The Bank had no loans and/or extensions of credit made to or guaranteed by the Bank's directors and officers and their related companies at December 31, 2009, and December 31, 2008.

Note 11. Restrictions, Commitments, Contingencies and Other Disclosures

Restrictions on Cash and Due from Banks. Lighthouse Bank is subject to Federal Reserve Act Regulation D which requires banks to maintain average reserve balances with the Federal Reserve Bank. Reserve requirements are offset by usable cash reserves. As of December 31, 2009 and December 31, 2008, Lighthouse Bank had no reserve requirement.

As compensation for check clearing and other services, compensating balances of approximately $345,000 and $10,000 were maintained with correspondent banks at December 31, 2009 and December 31, 2008, respectively. At times, the Bank maintained deposit amounts at corresponding banks that exceed federally insured limits. The Bank has not experienced any losses on amounts exceeding the insured limits.

Building Lease Commitments. The current operating lease for the Bank's 111 Mission Street office in Santa Cruz expires November 30, 2012, with an option to extend for three additional 5 year periods. The monthly lease payment for the Santa Cruz Office is presently $11,700 plus triple net expenses for taxes, insurance and maintenance and the lease payment is fixed at this amount during the initial term.

Minimum rental payments for future years under this lease are as follows at December 31, 2009:

2010	$ 140,400
2011	140,400
2012	128,700
	$ 409,500

Building rent expense was $140,440 for both the years ended December 31, 2009 and December 31, 2008, and was $24,532 from October 29, 2007 (inception) to December 31, 2007.

Loan Commitments. The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on Management's credit evaluation. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, residential real estate and income-producing commercial properties.

Financial instruments whose contract amounts represent credit risk at December 31, 2009 and December 31, 2008 are as follows:

	December 31,	
	2009	2008
Commitments to extend credit	$ 6,716,372	$ 11,147,839
Total unfunded financial commitments	$ 6,716,372	$ 11,147,839

Legal Matters. At December 31, 2009, the Bank was not subject to or knows of any claims and/or lawsuits that could have a material financial impact on the operations of the Bank.

Note 12. Fair Value of Financial Instruments

In accordance with SFAS No. 157, the Bank groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The only assets or liabilities measured at fair value on the bank’s balance sheet at December 31, 2009 and 2008 are the investment securities classified as available for sale totaling $2,759,425 and $3,671,886, respectively. Fair value for this group is based on the Level 2 assumption. Assets measured at fair value on a non-recurring basis at December 31, 2009 consist solely of other real estate owned of $3,882,387, having a fair value assertion based on the Level 3 assumption.

The were no changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2009.

The Bank may be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. There were no assets measured at fair value on a non-recurring basis for the year ended December 31, 2009.

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at December 31, 2009 and December 31, 2008. The fair value of financial instruments does not represent actual amounts that may be realized upon any sale or liquidation of the related assets or liabilities. In addition, these values do not give effect to discounts to fair value which may occur when financial instruments are sold in larger quantities. The fair values presented represent the Bank's best estimate of fair value using the methodologies discussed below.

The respective carrying values of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash and cash equivalents, interest-bearing deposits in other banks, banker’s bank and Federal Home Loan Bank stock and demand and savings deposits. Carrying values were assumed to approximate fair values for these financial instruments as they are short term in nature and their recorded amounts approximate fair values or are receivable or payable on demand. The Bank does not use derivative financial instruments.

	December 31,			
	2009		2008	
	Amount	Value	Amount	Value
Financial Assets:				
Cash and cash equivalents	$ 12,903,559	$ 12,903,559	$ 6,869,406	$ 6,869,406
Interest-bearing deposits in other banks	16,482,000	16,482,000	12,205,000	12,205,000
Securities available-for-sale	2,759,425	2,759,425	3,671,886	3,671,886
Bankers' bank and Federal Home Loan Bank stock	464,274	464,274	278,700	278,700
Loans, net	53,478,221	53,186,924	41,017,609	40,576,735
Other real estate owned	3,882,387	3,882,387	-	-
Financial Liabilities:				
Noninterest-bearing demand deposits	$ 12,454,194	$ 12,454,194	$ 10,049,217	$ 10,049,217
Interest-bearing demand deposits	2,886,908	2,886,908	2,740,038	2,740,038
Money market deposits	31,428,955	31,428,955	21,569,877	21,569,877
Time certificates of deposit	22,409,801	22,409,298	13,588,436	13,474,614
Savings account deposits	1,293,906	1,293,906	698,154	698,154
Borrowings	4,100,000	4,100,000	-	-

The following methods and assumptions were used to estimate the fair value of other classes of financial instruments:

Securities: The fair values of securities classified as available-for-sale and held-to-maturity are based on quoted market prices at the reporting date for those or similar investments.

Loans: The fair value of fixed rate loans is determined as the present value of expected future cash flows discounted at the interest rate currently offered by the Bank, which approximates rates currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk. Variable rate loans which re-price frequently with changes in approximate market rates were valued using the outstanding principal balance. The estimated fair value of loan commitments and contingent liabilities at December 31, 2009 and December 31, 2008 approximate current book values.

Deposits: The fair values of demand deposits, savings deposits, and money market deposits without defined maturities were the amounts payable on demand. For substantially all deposits with defined maturities, the fair values were calculated using discounted cash flow models based on market interest rates for different product types and maturity dates. For variable rate deposits where the Bank has the contractual right to change rates, carrying value was assumed to approximate fair value. The discount rates used were based on rates for comparable deposits.

Note 13. Other Operating Income and Expense

The following is a breakdown of other non-interest income and non-interest expense in the Statement of Operations:

	2009	2008	2007
Other non-interest income:			
Imprinted check sales	$ 2,830	$ 3,214	$ 665
Wire transfer fees	3,855	2,130	40
Merchant card processing	4,082	1,497	-
Internet banking fees	2,545	1,047	-
Safe deposit fees	1,950	1,400	600
Other non-interest income	17,487	6,832	6
Total other non-interest income	$ 32,749	$ 16,120	$ 1,311
Other operating expense:			
Directors' & organizers' stock-based options expense	$ 113,100	$ 113,100	$ 78,880
Correspondent bank charges	93,694	45,691	2,096
Regulatory assessments	108,680	18,925	-
Loan and collection expense	91,030	23,440	814
Insurance and security	26,061	30,293	5,124
Stationery, supplies and printing	23,217	25,117	13,872
Telephone, postage and electronic communications	20,197	19,637	3,822
Shareholder related expense	15,267	23,885	1,696
Publications and subsctiptions	6,844	4,073	616
human resources administration fees	6,483	30,401	6,260
Dues and memberships	3,770	2,183	615
Armored car and messenger	3,283	2,682	-
Meetings, conferences, education & training	2,199	12,507	8,632
Customer checks and stamps	1,109	3,331	331
Other non-interest expenses	32,490	22,328	4,867
Total other operating expenses	$ 547,424	$ 377,593	$ 127,625

Note 14. Capital Adequacy

The Bank is subject to various regulatory capital adequacy requirements administered by the banking regulatory agencies. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for depository institutions: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, would have a direct material effect on the Bank's financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy, require that the Bank maintain minimum ratios (set forth in the following table) of capital to risk weighted assets and average assets.

Management believes that, as of December 31, 2009, the Bank met all capital adequacy requirements to which they were subject.

The most recent notification from the FDIC categorized the Bank as well capitalized under the FDICIA regulatory framework for prompt corrective action. To be categorized as well capitalized; the institution must maintain a total risk-based capital ratio as set forth in the following table and not be subject to a capital directive order (such as a Formal Agreement). There are no conditions or events since that notification that Management believes has changed the Bank's risk-based category.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes:		For Regulatory Adequacy Purposes (first three years)		To Be Well Capitalized Under the FDICIA Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009								
Total capital (to risk weighted assets)	$ 17,115	25.95%	$ 5,276	8.00%	$ 6,595	10.00%	$ 6,595	10.00%
Tier 1 capital (to risk weighted assets)	$ 16,284	24.69%	$ 2,638	4.00%	$ 3,957	6.00%	$ 3,957	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 16,284	18.46%	$ 3,529	4.00%	$ 7,058	8.00%	$ 4,411	5.00%
As of December 31, 2008								
Total capital (to risk weighted assets)	$ 16,766	32.88%	$ 4,079	8.00%	$ 5,099	10.00%	$ 5,099	10.00%
Tier 1 capital (to risk weighted assets)	$ 16,125	31.63%	$ 2,039	4.00%	$ 3,059	6.00%	$ 3,059	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 16,125	25.12%	$ 2,567	4.00%	$ 5,134	8.00%	$ 3,209	5.00%
As of December 31, 2007								
Total capital (to risk weighted assets)	$ 17,849	131.14%	$ 1,089	8.00%	$ 1,361	10.00%	$ 1,361	10.00%
Tier 1 capital (to risk weighted assets)	$ 17,769	130.55%	$ 544	4.00%	$ 817	6.00%	$ 817	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 17,769	71.55%	$ 993	4.00%	$ 1,987	8.00%	$ 1,242	5.00%

The leverage ratio consists of Tier 1 capital divided by quarterly average assets, excluding intangible assets and certain other items. The minimum leverage ratio guideline is 4% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings and, in general, are considered top-rated, strong banking organizations. Throughout its first three years of operation, the Bank is required to maintain a Tier 1 Leverage Ratio of not less than 8%.

Note 15. Regulatory Matters

Under the terms of approval of deposit insurance by the Federal Deposit Insurance Corporation, the Bank's Tier 1 capital-to-assets leverage ratio (as defined in the appropriate capital regulation and guidance from the Bank's primary federal regulator) shall be maintained at not less than 8% throughout the first three years of operation. Additionally, the FDIC's approval requires that the Bank operate within the parameters of the business plan submitted as part of the Bank's application for deposit insurance during the first three years of operation and that any major deviation or material changes from the plan be submitted 60 days before consummating the change.

Board of Directors

(In order from left to right)

Richard G. Hofstetter
President and Chief
Executive Officer
Lighthouse Bank

Stephen D. Pahl
Chairman and
Chief Executive Officer
Pahl & McCay,
a Professional Law Corporation

James L. Weisenstein
President
Graystone Consulting, LLC.

William R. Slakey
Chief Financial Officer
LiveOps, Inc.

John C. Burroughs, Chairman
Certified Financial Planner
Burroughs Financial Services
Vice Chairman
Foothill Securities, Inc.

Ritu P. Meister, M.D.
Physician
Dominican Medical Foundation

Bruce A. McPherson
California's 30th Secretary of State
Past California State Senator,
15th District

Craig A. French
Managing Director and
Chief Operating Officer
Redtree Properties, LP.

Michael P. Dunn, D.O.
Physician
Dominican Hospital
Watsonville Community Hospital

Douglas D. Austin
President
The Austin Financial Group

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(In order from left to right)

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Executive Vice President
Chief Financial Officer

Kimberly M. Raynal
Senior Vice President
Chief Operating Officer

Lane S. Lawson, Jr.
Executive Vice President
Chief Credit Officer

Richard G. Hofstetter
President
Chief Executive Officer

Jon P. Sisk
Senior Vice President
Senior Lending Officer

Staff

(In order from left to right)

Brianna Carabba
Assistant Vice President
Executive Administrator

Lane Lawson, Jr.
Executive Vice President
Chief Credit Officer

Michelle Cole
Assistant Vice President
Note Department Manager

Marshall Delk
Vice President
Business Development Officer

Wendy Matlick
Assistant Vice President
Service Manager

Robert Dennis
Vice President
SBA/Commercial Relationship Manager

Claudia Morales
Client Service Representative

Joey Garcia
Client Service Representative

Matty Sinnott
Client Service Representative

Dara Mort
Loan Support Officer

Donald Soman
Executive Vice President
Chief Financial Officer

Judy Spellerberg
Senior Client Service Representative

Richard Hofstetter
President
Chief Executive Officer

Ivan Ditmars
Accounting Specialist

Lisa Ratliff
Loan Servicing Specialist

Jon Sisk
Senior Vice President
Senior Lending Officer

Kimberly Raynal
Senior Vice President
Chief Operating Officer

Jamie Ganly
Vice President
Commercial Real Estate and
Construction Loan Officer

Founding Organizers

LIGHTHOUSE BANK

ORGANIZERS

- Douglas & Jo-Ann Austin
- Don & Barbara Bargiacchi
- Gary & Valerie Benito
- Ken & Debra Bergman
- Chip & Suzie Bogaard
- Blaine & Connie Brokaw
- William Brooks
- John & Linda Burroughs
- Marshall & Sabrina Delk
- Dr. Michael & Julie Dunn
- Craig & Mimi French
- Peter & Nancy Port-Gaarn
- Doak & Jeri Gintert
- Russell & Alana Gross
- Richard G. Hofstetter
- Larry Kerr & Jennifer Antrim
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- Herman Mondo
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- Jesse & Christine Nickell
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- Stephen & Louise Pahl
- Rowland & Pat Rebele
- Hans Schroeder
- Jon & Margie Sisk
- William & Peggy Slakey
- James & Carol Weisenstein
- Whiting's Foods
- Peter & Jackie Whiting
- Tim & Ann Williams
- Andy Zehnder

Shareholder Relations and Information

Stock Listing

Lighthouse Bank's stock is listed on the Over-the-Counter Bulletin Board (OTCBB) and trades under the ticker symbol LGHT.OB.

Market Maker

Lisa Gallo
Wedbush Morgan Securities, Lafayette, CA
Phone: (866) 491-7828
Email: lisa.gallo@wedbush.com

Shareholders with questions regarding their stockholder account, stock transfer, lost certificates or changes of address should contact their broker. In the event that certificates are held directly, shareholders should contact the Bank's stock transfer agent:

Computershare Trust Company, N.A.

First Class/Registered/Certified Mail:
P.O. Box 43070, Providence, RI 02940-3070

Courier Services:
250 Royall Street, Canton, MA 02021

Shareholder Service Number(s):
Phone: (800) 962-4284

Investor Centre™ portal:
www.computershare.com/investor

For assistance with other stock related matters or to change your contact information for periodic shareholder communications sent directly from the Bank, shareholders should contact:

Brianna Carabba

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111 Mission Street, Santa Cruz, CA 95060
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For financial information beyond that shown in this report, shareholders should contact:

Donald H. Soman

Chief Financial Officer
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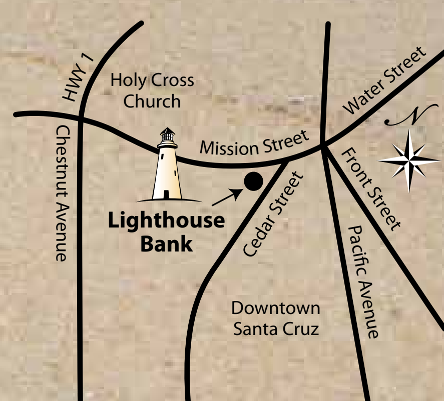

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